Agenda

- PM USA advertising arena: limitations, opportunities

- What is selective binding?

- How the technology works

- Review of selective binding projects to date

- Future opportunities

- Next steps for 1995

PM USA Advertising Arena

Limitations

■ **In the face of advertising limitations, PM USA still spends over $200MM in advertising**

  – Media's charge is to constantly explore means to better reach potential consumers

  – 1993-1994 selective binding was one of the vehicles explored

Where we can spend

- ■ **Print and OOH are the only 2 options available to us for advertising**

- ■ **Print usage has represented about 50% of the budget through the years:**

Print/OOH Spending Trends

	1993		1994		Proposed '95	
	$MM	%	$MM	%	$MM	%
Print	88	46	131	55	122	53
OOH	102	54	107	45	107	47
Total	190		238		229	

How do we use each vehicle?

■ OOH is used to provide brand awareness, big brand image

■ Print is used to provide selective reach against a defined audience. PM USA is always looking for ways to further capitalize on this ability

In the best case scenario, approximately 30% of magazines' audiences are smokers:

	Total Aud.	% Smokers
Road & Track	4,927,000	31%

Opportunity

The selective binding process

■ Enables us to better reach smokers, eliminating waste

and

■ Protects us against a future that may have further
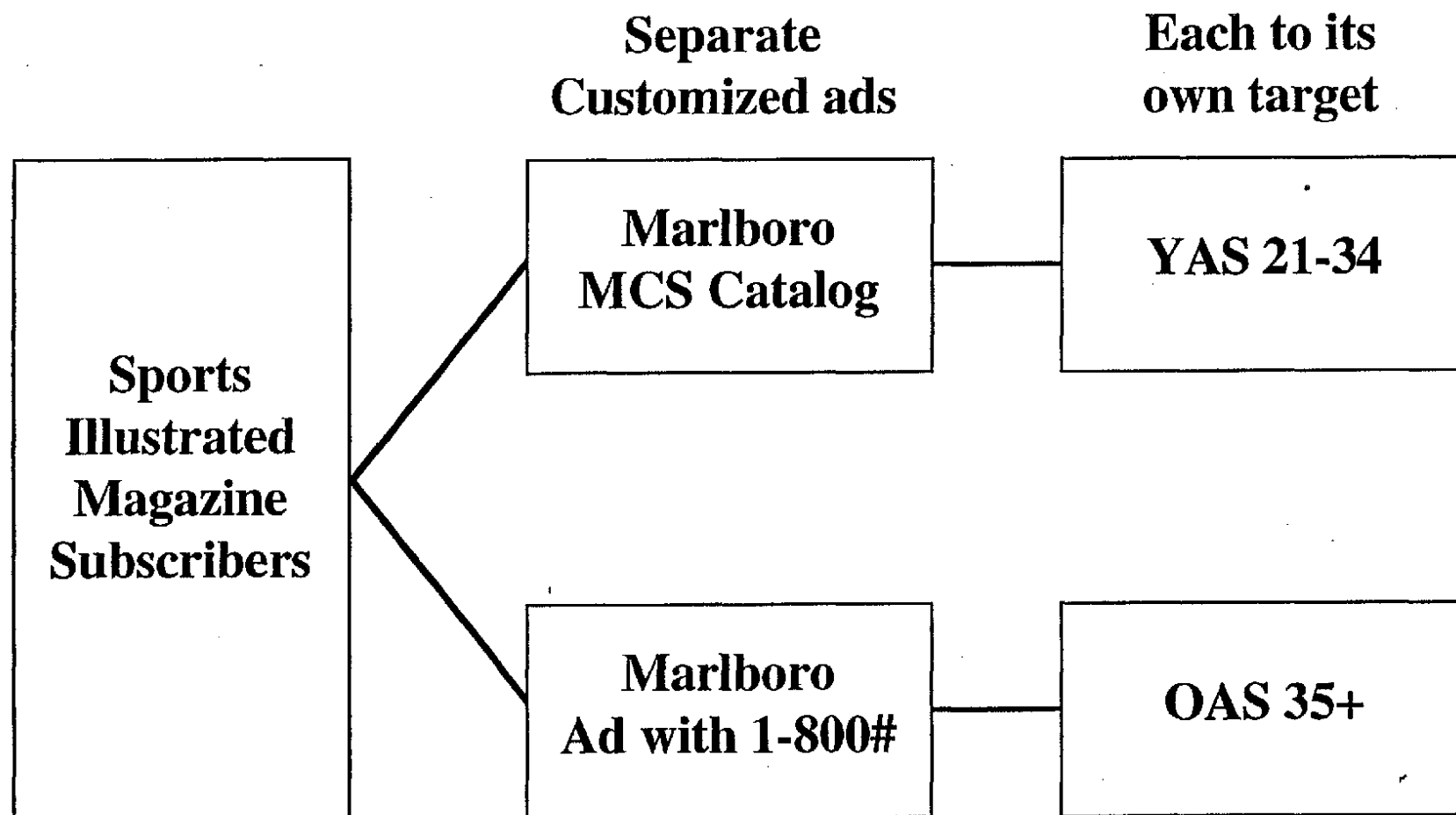advertising regulations

What is selective binding?

The process which identifies specific individuals in a magazines' subscriber base with the goal of delivering a customized advertisement to those individuals
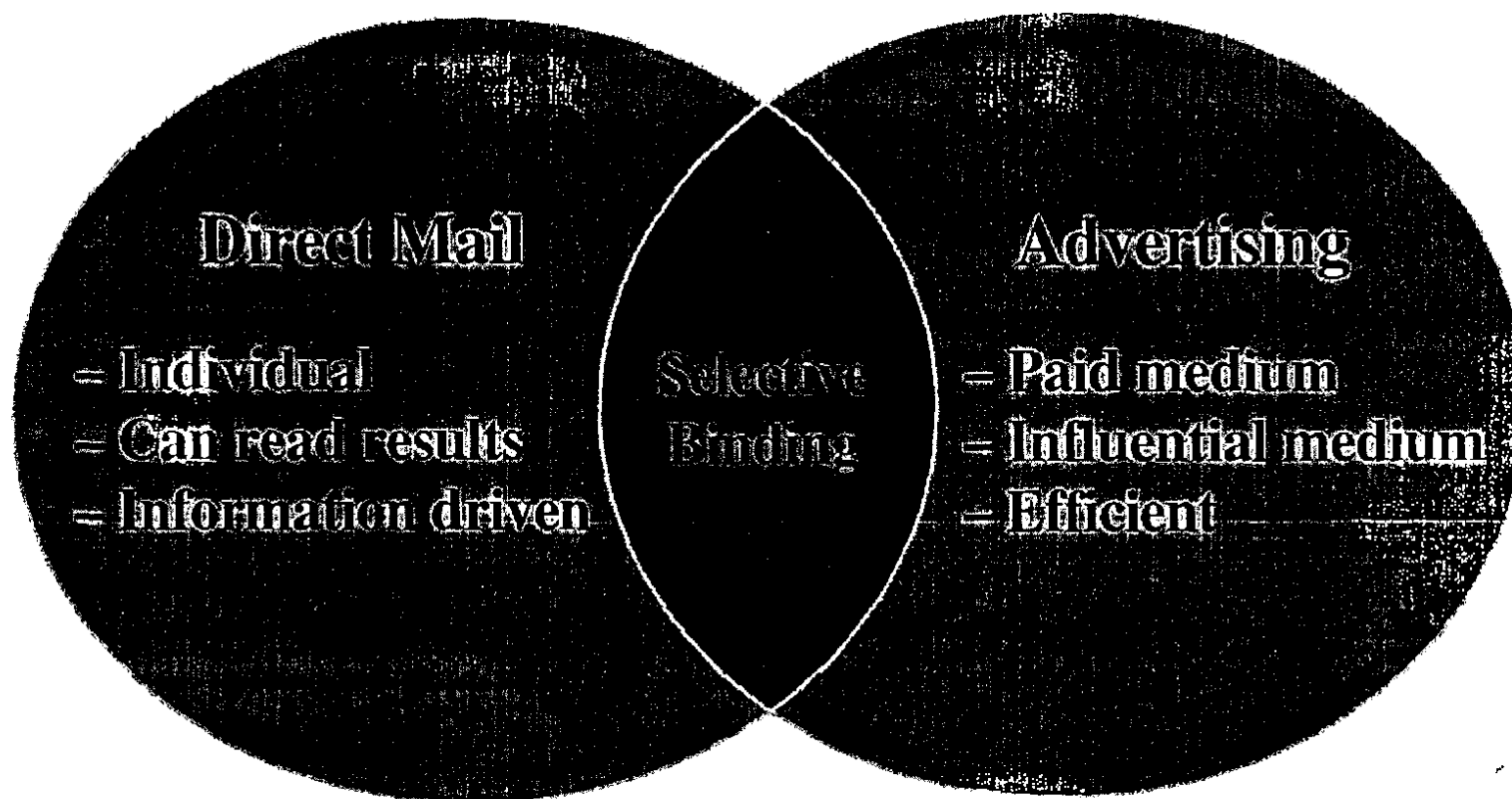
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What is selective binding?

Separate Customized ads

Each to its own target

Sports Illustrated Magazine Subscribers

Marlboro MCS Catalog

YAS 21-34

Marlboro Ad with 1-800#

OAS 35+

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What is selective binding

A new medium for Philip Morris

Direct Mail

= Individual
= Can read results
= Information driven

Selective Binding

Advertising

= Paid medium
= Influential medium
= Efficient

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How it works

Brand

Direct Marketing

Media

Agency

Publishers

Richmond IS

Research

Printers/Magazine Fulfillment Houses

How it works

Publisher Fulfillment House (i.e. Neodata)	Richmond IS	Publisher Fulfillment House (i.e. Neodata)	Printer
Creates and Sends Magazine Subscriber Tape	Merge/Purge smoker database against subscriber file and marks PM database when appropriate	Mark file and create a selectronic driver tape	Binds ads into appropriate issues of magazine

Key Technologies

Selective binding

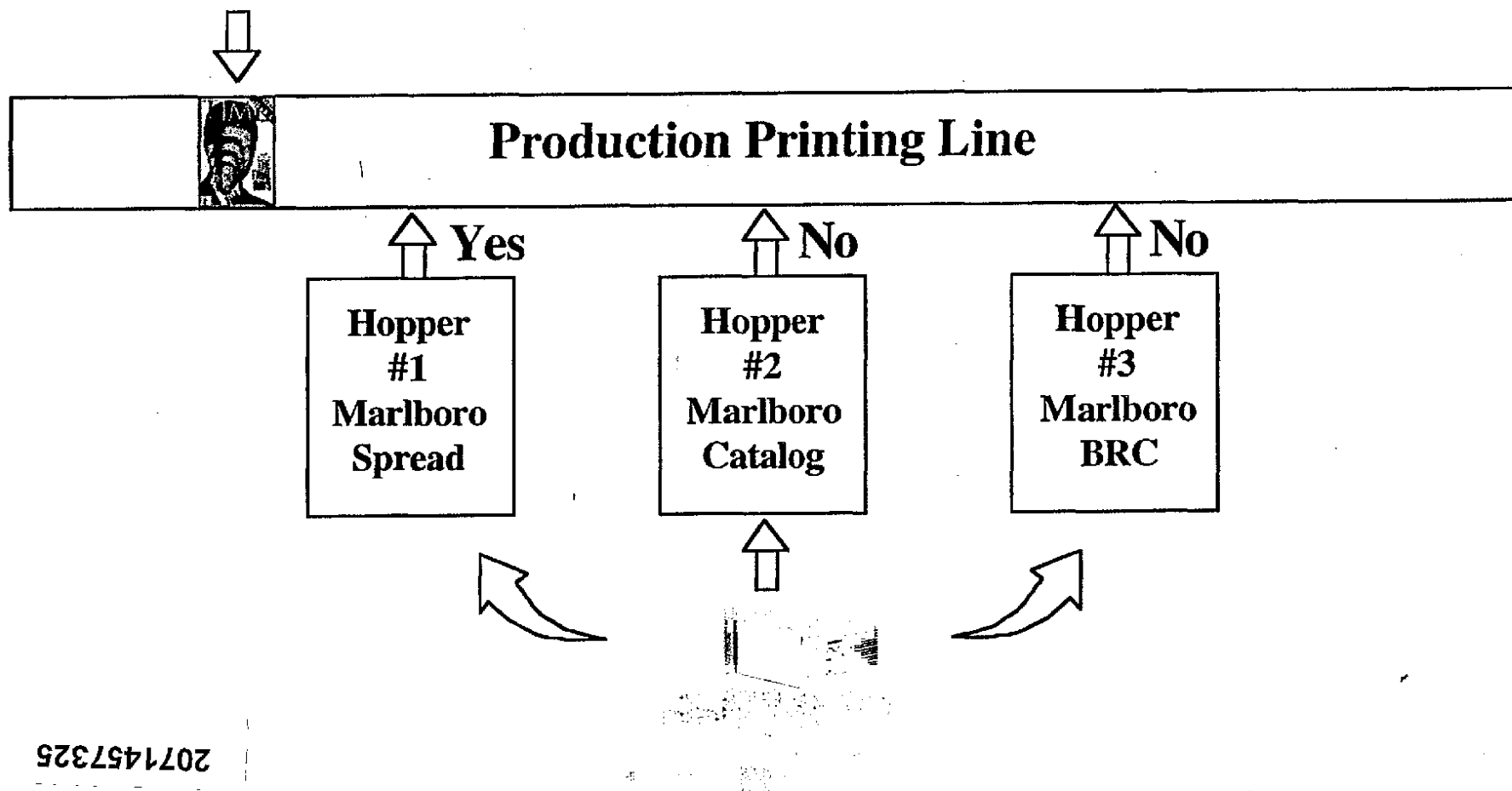■ Computerized binding method to target audience segments with 2,3,4 or more different ad executions

Ink jet printing

■ Computerized printing process that can customize individual messages to every subscriber

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How it works

Space #592,000 - James Vander Putten

⇩

Production Printing Line

⇧ Yes   ⇧ No   ⇧ No

Hopper #1 Marlboro Spread	Hopper #2 Marlboro Catalog	Hopper #3 Marlboro BRC

When did magazines/marketers develop this process?

■ **Has been available for 20 years:**

- Seagrams was the first mass marketer
    (farming and baby care publications were first
     to use technology)

- Now, in addition to PM USA, advertisers such as Pepsi,
    Audi, Buick, Godiva are actively using this technology

■ **PM USA tested the technology in 1990 but opted not to use:**

- Databases on both sides were too small to make
    meaningful matches (and warrant the expense)

- Technology was new and judged unreliable

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What changed?

In the summer of 1993, media restaged an effort which resulted in going forward with a Time Inc. test (Dec. '93)

- Magazines expanded their databases
- Tried and true for other products

Advantages

■ Provides ability to reach only known smokers

■ Lower out of pocket cost

Time Magazine

	P4CB $M	Circ. M	CPM $
National			
Total	101.5	4,000	25
Est. Smokers	101.5	1,160	87
Selective			
Solo	56.8	481	118
Shared	24.8	481	52

Initial process

■ Screen for partners

■ Evolves into confidentiality agreements

■ Run merge/purge on databases

■ Determine a pricing structure

Our current business partners

TIME, INC.	HACHETTE	MEREDITH	TIMES MIRROR
Time Sports Ill. People Ent. Weekly Money Fortune Life	Amer. Photo. Audio Boating Car & Driver Cycle World Elle Elle Decor Flying Home Met. Home Pop. Photo Road & Track Stereo Review Woman's Day	BH&G Country America Country Home LHJ Midwest Living	Field & Stream Golf Home Mechanics Outdoor Life Popular Science Saltwater Sports. Ski Sporting News Yachting

Our current task, then, is to find:

The Right Fit

For

The Right Brand

For

The Right Program

Multi-brand test

December, 1993

Why: Test the process . . .
            Can selectively bound ads be executed successfully?

Where: Time Inc. Publications

            Marlboro   —   Sports Illustrated
            Merit   —   Time
            Virginia Slims —   People

Conditions: Publications already on brands' schedule.
            Selected weeks where only selectively bound ad
            would run.

Cost: $150M – self-funded from print credits

Measures: Phone survey to determine if the right copy was
            received by the right hands.

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Multi-brand test

December, 1993

Learning

■ Based on LBCO telephone survey it was learned that

- Delivery was 99% accurate – the right person received the right ad

- However, since matches were done on household basis, only 50% of subscribers were smokers

■ Implications:

- Though subscriber did not smoke does not mean that a smoker was not in the household

- Database may not reflect smokers who have recently quit

1994 projects

1. Marlboro Country Store #1

2. Merit Awards

3. Marlboro Country Store Sweepstakes

Test #1 – Marlboro Country Store #1

June 1994

Why:	1. Confirm technical accuracy of publications
	2. Determine effectiveness of selective binding as a means to distribute MCS catalogues

Where:

Time Inc.	Times Mirror	Meredith
Sports Illustrated	Field & Stream	Country America
Entertainment Weekly	Outdoor Life	
People		

Conditions:
- Time Inc. and Meredith Publications ran national copy splits differently coded: matched smokers vs. remaining circulation
- Times Mirror ran smokers' edition only
- A direct program was simultaneously delivered

Cost: $290M – funded within MCS print budget

Test #1 – Marlboro Country Store #1

June 1994

Learning

1. Technical results

■ LBCO phone survey conducted to follow through on database matches:

- 90%+ net accuracy rate; the correct address received the correct insertion with the proper source code

- 67%-70% of households verified that a smoker lived in that household

- higher than original findings of 50%

Test #1 – Marlboro Country Store #1

June 1993

Learning

2. Effectiveness as a delivery device:

■ Total print plan response was compared to the selectively bound portion:

- Response rate was over **2X** greater than the national program

- In turn, despite greater CPM to deliver catalogue going in, response costs are actually less!

	% Response	Cost/Response
National	0.26%	$43
Selective	0.57%	$37

Test #1 – Marlboro Country Store #1

June 1994

Learning

2. Effectiveness as a delivery device:

■   Further, when examining specific publications
    participating in program, the situation becomes more
    attractive . . .

	Cost per Resonse		
	Smoker	Remaining	Total
Sports Illustrated	$61	$ 174	$ 132
People	$36	$ 72	$ 67
Country America	$28	$ 42	$ 36

Test #1 – Marlboro Country Store #1

June 1994

Media implication

■ Mass reach publications, e.g. People, SI, are more cost effective used selectronically

Test #2 – Merit Awards

October 1994

Why:
1. Confirm technical accuracy of publications
2. Evaluate cost effectiveness of selective binding vs. remaining circulation
3. Determine if selective binding can be more effective/efficient in delivering continuity offers vs. direct mail:
   - Personalized catalogue
   - Personalized BRC
   - Non personalized BRC

Where:

Time Inc.	Times Mirror	Hachette	Meredith
People	Field & Stream	Car & Driver	L H J
Sports Illus.	Outdoor Life	Home	B H G
Enter. Wkly		Road & Track	Country America
			Woman's Day

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Test #2 — Merit Awards

October 1994

Conditions: ■ People, SI, LHJ were selected to execute direct mail test. The 3 publications provide the ability to obtain statistically stable test cells

Direct Mail Test Cells

	Control	1	2	3	4	5
People	no ad DM only	person. cat.	person. brc	non-pers. brc	800#	
LHJ	no ad DM only					person. cat/DM
SI	no ad DM only					person. cat./DM

■ All publications (except People) ran in smokers' edition only

■ People also ran in remaining subscription circulation (as in MCS)

Cost: $504M — funded from print plan

Test #2 – Merit Awards

October 1994

Learning

1. Technical results

■ LBCO telephone survey conducted to follow through on database matches for People, LHJ, and SI

  – 93%+ net accuracy rate across all executions

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Test #2 – Merit Awards

October 1994

Learning - Directional use only

- Awareness

- Participation

- Final analysis will be based on cost/response

Test #2 – Merit Awards

October 1994

1. Technical results - Telephone research*

■ Awareness of Merit Awards program -
"Did consumer see ad?"

People

	Control	Catalog	(P) BRC	(NP) BRC	Ad Only
Unaided	33% (Index: 100)	52 (158)	39 (118)	37 (112)	35 (106)
Aided	63% (Index: 100)	74 (118)	75 (119)	66 (105)	63 (100)

LHJ

	Control	Catalog/DM
Unaided	32 (100)	36 (113)
Aided	71 (100)	79 (111)

SI

	Control	Catalog/DM
Unaided	34 (100)	31 (91)
Aided	63 (100)	73 (116)

*Directional learning only!

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Test #2 – Merit Awards

October 1994

1. Technical results - Telephone research*

■ Participation in Merit Awards program - "Will consumer act on it?"

People

	Control	Catalog	(P) BRC	(NP) BRC	Ad Only
Plan to save UPC's	32% (Index: 100)	44 (138)	45 (141)	34 (106)	33 (103)
Plan on ordering	31% (Index: 100)	42 (136)	45 (145)	30 (97)	34 (110)

LHJ

	Control	Catalog/DM
Plan to save UPC's	32 (100)	44 (120)
Plan on ordering	31 (100)	42 (119)

SI

	Control	Catalog/DM
Plan to save UPC's	50 (100)	46 (92)
Plan on ordering	50 (100)	37 (74)

*Directional learning only!

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Test #2 – Merit Awards

October 1994

Awaiting results for the following:

2. Media Effectiveness:
   - Cost effectiveness of selectively bound ad vs. national (cost/response)

3. Selective binding vs. direct mail:
   - Analysis of response rates across all cells of the test
   - Cost/benefit analysis to determine if incremental units moved via selective binding pays out

Test #3 – Marlboro Country Store Sweepstakes

November 1994

Why: Determine the effectiveness of selective binding as a means to distribute sweepstake catalogue

Where:

Time Inc.	Times Mirror	Hachette
People	Field & Stream	Car & Driver
Sports Illustrated		Cycle World
Life	Meredith	
Entertainment Wkly	Country America	

Conditions: All publications ran national copy splits differently coded: matched smokers vs. remaining circulation

Cost: $300M

1995 - work in progress

Timing

■ Marlboro Gear   2nd Qtr

■ Marlboro modeling (Thunder)   3rd Qtr

Under Consideration

■ Parliament - support of 100's
franchise nationally   3rd Qtr

■ Merit Awards   3rd Qtr

■ V-Wear   3rd Qtr

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Future opportunities

■ Drive smokers to retail outlets via selective binding/personalization
  - Elizabeth Arden
  - Godiva
  - Mazda

Future opportunities

■ **Database modeling - Brand applications**

    – Match PM smoker database to magazine subscription file

    – Profile previous direct mail non-responders and create test cells for selective binding

    – Execute tests to measure optimal means of getting d.m. non-responders to "raise hands"

        - Frequency tests

        - Offer tests

    – Create models based on profiles of responders to aid in future audience selection

Future opportunities

■ **Database modeling - QUE applications**

    – Match PM-smoker database to magazine subscription file

    – Create a detailed demographic and psychographic profile of known smokers

    – Match smoker audience profile with similar magazine readers

    – Place personalized QUE messages and offers in your best prospects' favorite magazine

   – Create models based on profiles of responders to aid in future audience selection

Future opportunities

■ Specialized promotions/sweepstakes offered via selective binding

    – Refer-a-friend ads

    – Regional ads linked to specific event promotions

    – Sweepstakes linked to personalization on selectively bound ads

Future opportunities

Total Circulation: 4.0MM

Time

Remaining Circulation

Model for best smoker prospects

Known relapsed smokers
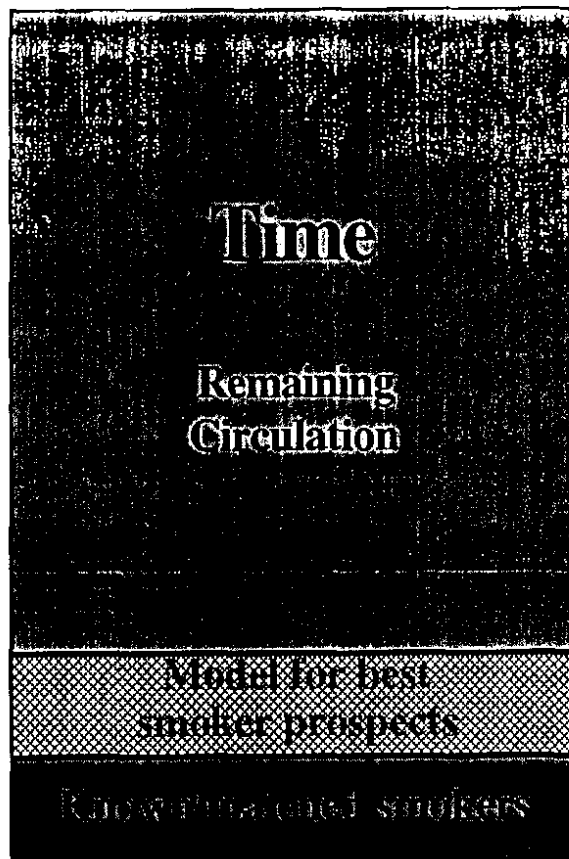
Selective Circulation

Ad Only: 3.0MM

Name Generation: 0.5MM

Continuity or Coupon: 0.5MM